

Philadelphia Budget Challenge

Key Findings: First 30 Days (3/23 thru 4/22/09)

- More than 1,400 people took the Philadelphia Budget Challenge; 956 indicated living in the Greater Philadelphia region¹ based on zip codes (where provided).
- 43% of those taking the challenge finished with a balanced budget or a surplus; 57% finished with a deficit.
- More than 80% of users chose to raise the Amusement Tax and more than 60% raised the Sales and Real Estate Taxes.
- More than 70% of users did not cut funding for the Police and Fire Departments.

Budget Challenge Background

The Economy League of Greater Philadelphia created the Philadelphia Budget Challenges as an online, interactive civic engagement tool to educate citizens about the city budget and to solicit their input concerning the choices facing Mayor Nutter and City Council in light of the significant budget deficit for fiscal year 2010. Participants had the opportunity to choose among options for increasing revenue and cutting spending with the goal of balancing the city budget.

Budget data were provided by the City of Philadelphia and other publicly available sources in February and March 2009. Each city department provided the details regarding the impact cuts would have on services and activities. We thank the Philadelphia Office of Budget and Program Evaluation and the Managing Director's Office for their cooperation and assistance. In addition, the Fels Institute of Government at the University of Pennsylvania and the Penn Project for Civic Engagement were key in the development of the Challenge's content. The Lenfest Foundation funded the Philadelphia Budget Challenge.

The Economy League launched the Challenge on March 23, 2009. It remains online; however, the data outlined in this report are from individuals who took the Challenge during the first 30 days (March 23 through April 22). Announcement of the Challenge went to the Economy League's approximately 4,000 member listserv and to the Penn Project for Civic Engagement's listserv and on social media outlets Facebook and Twitter. The Challenge was covered by local media including the City Paper, WHYY, KYW, and the Daily News as well as by blogs and websites regionally, nationally, and even internationally.

The Economy League of Greater Philadelphia

The Economy League of Greater Philadelphia is an independent, nonpartisan, nonprofit organization dedicated to research and analysis of the region's resources and challenges with the goal of promoting sound public policy and increasing the region's prosperity. ELGP is an affiliate of the Pennsylvania Economy League, Inc., with offices in Harrisburg, Wilkes-Barre, and Pittsburgh. For more information, visit www.EconomyLeague.org.

¹ Greater Philadelphia is defined as Philadelphia, Montgomery, Chester, Bucks and Delaware Counties in Pennsylvania; Camden, Burlington and Gloucester Counties in New Jersey; New Castle County in Delaware.

Who took the Challenge?

From March 23, 2009 to April 22, 2009, 1443 people took some portion of the Challenge. They were asked for their zip code and age. Based on those responses, 956 people from the Greater Philadelphia region took the Challenge. The remainder (487) either did not provide a zip code or were from outside the region.

Within the region, 780 Challenge-takers lived within the city and 176 lived in surrounding counties in Pennsylvania (130), New Jersey (40) and Delaware (6). While it is Philadelphia's residents primarily who are affected by the city's budget decisions and elect the decision makers, residents from the entire region work and play in the city and also feel the impact of these decisions, if less directly.

Below is the breakdown of users from the Greater Philadelphia region by age and a list of top respondent zip codes.

Age of Budget Challenge-Takers

| Age | Percent |
|-----------|---------|
| Under 18 | 14% |
| 19 -29 | 25% |
| 30 - 39 | 22% |
| 40 - 49 | 15% |
| 50 - 59 | 15% |
| 60 & Over | 10% |

Most Frequent Zip Codes

| Zip Code | Number |
|----------|--------|
| 19147 | 85 |
| 19146 | 58 |
| 19119 | 55 |
| 19130 | 52 |
| 19103 | 51 |

They were asked, although not required, to submit their education level and gender. The majority did not include this information with their results. Given that the Challenge was only available online, it was not anticipated that the Challenge-taker sample would be demographically representative of the city or the region.

Did they balance the budget?

While interest in the Challenge spread as far as the United Kingdom² and users from across the country took the Philadelphia Budget Challenge, we included in the results only the choices of those submitting a zip code from the Greater Philadelphia region.

As the following table illustrates, fewer than half of those taking the challenge succeeded in balancing the budget or ending with a surplus.

² <http://www.adamsmith.org/blog/tax-and-economy/balancing-budgets-200903283186/>

Challenge-Takers Budget Results

| Deficit | Percent | Surplus | Percent |
|-----------------------------|----------------|----------------------|----------------|
| Over \$100 million | 15% | \$0 - \$50 million | 25% |
| \$100 - \$51 million | 19% | \$50 - \$100 million | 10% |
| \$51 – \$.01 million | 23% | Over \$100 million | 8% |
| Total | 57% | Total | 43% |

Challenge-takers were invited to give feedback after completing the challenge. Not surprisingly, some noted how difficult balancing the budget had been while others found it simple.

Which options did they choose?

Revenue

Citizens chose among options for maintaining or raising rates in five revenue areas: Amusement Tax, Business Privilege Tax, Real Estate Tax, Sales Tax, and Wage Tax. Challenge-takers did not have to answer each question to submit their results; thus, the number of responses varies for each question. Overall, a majority of users chose to raise Amusement, Sales, and Real Estate taxes, but preferred not to increase the Wage or Business Privilege taxes.

Challenge-Takers Tax Choices

| Tax | Total Responses | Increase | Maintain Current Rate |
|---------------------------|------------------------|-----------------|------------------------------|
| Amusement Tax | 910 | 81% | 19% |
| Sales Tax | 899 | 66% | 34% |
| Real Estate Tax | 893 | 65% | 35% |
| Wage Tax | 916 | 33% | 67% |
| Business Privilege | 892 | 29% | 71% |

It’s important to note that users were given the option of raising each of these taxes at different levels. For example, of the 81% who chose to increase the Amusement Tax, 37% chose to raise it by 1% and 44% chose a 2% increase. And while 65% of users chose to increase the Real Estate Tax, just 10% chose the option proposed by the mayor of a temporary but sizable two-year increase. Most chose a 5% increase (35%) or an 11% increase (19%). While a majority chose to raise the Sales Tax, responses to the question were fairly evenly distributed across the three options: 34% chose no increase, 30% chose a .1% increase and 36% chose a 1% increase.

Also, we requested feedback on the Challenge. A number of people wrote that they would have preferred the option to cut taxes. One user noted “how constrained the number of revenue sources are [sic] for the city. The way the City raises money is not nearly as varied as the way the City spends money.

And there is no clear relationship to citizens between the services the City provides and the taxes the City raises.”

Spending

Users were given nine spending areas. They could maintain current funding or decrease spending. For most departments, 10%, 20%, or 30% cuts could be made, and the impact of cuts at each level was provided.

Challenge-Takers Spending Choices

| Department | Total Responses | Cut Spending | Maintain Current Funding Level |
|-----------------------------|-----------------|--------------|--------------------------------|
| Fleet Management | 853 | 93% | 7% |
| Administration ³ | 845 | 81% | 19% |
| Licenses & Inspections | 836 | 71% | 29% |
| Prison System | 858 | 64% | 36% |
| Free Library | 879 | 45% | 55% |
| Supportive Housing | 864 | 40% | 60% |
| Fire | 875 | 30% | 70% |
| Police | 862 | 25% | 75% |

There are a few important observations about the choices users made regarding departmental cuts.

- *Public Safety cuts were unpopular.* A significant majority of users chose to maintain current funding levels for Police and Fire. These departments comprise a large portion of the budget, and even small cuts would have gone a long way toward balancing the budget.
- *A majority favored small departmental cuts.* For example, in the case of Administration, 53% chose at 10% cut and fewer than one third (29%) chose either a 20% or 30% cut.
- *Maintaining city-provided human services was important.* A majority maintained current funding levels for the Free Library and Supportive Housing, and, as discussed below, a significant majority made no cuts that impacted service levels to the Public Health Department.
- The results for the Public Health Department merits extra discussion because there were important differences in the Challenge options. As with all departments, users chose among retaining the status quo and 10%, 20%, and 30% cuts; however, the Department itself presented a plan for cutting 10% without impacting services and proposed the institution of sliding scale fees for services and charges for over-the-counter medications currently provided at no cost to health center patients. Below are the choices made by Challenge-takers.

³ Includes multiple departments such as City Planning, Finance, Division of Technology, Historical Commission, Human Resources, Labor Relations, Procurement, Records, Revenue and Zoning Code Commission

Popularity of Public Health Department Funding Choices

| Department | Total Responses | Maintain Current Funding Level | 10% Cut | 20% Cut | 30% Cut |
|---------------|-----------------|--------------------------------|---------|---------|---------|
| Public Health | 851 | 32% | 49% | 10% | 9% |

In looking generally at the spending options, users noted that they would have preferred that more departments be included in the Challenge and that more options for cuts had been offered.

Pension Fund

A question was included regarding the city’s pension fund and how it is managed. Mayor Nutter proposed reducing the assumed rate of return on pension investments from 8.75% to 8.25% and spreading out the funds earnings and losses over a longer period of time. Challenge-takers could choose to maintain the assumed rate of return on investments and earnings/losses time frame or change it as proposed by the mayor, which saves money in the short-term. Sixty-seven percent chose to change the return rate assumptions and time frame, and 33% chose to keep it as is.

General Feedback

As noted, users were given the opportunity to provide feedback about the challenge content as well as to share ideas about the budget. While it is difficult to summarize neatly the feedback given the significant diversity in the perspectives shared, a few themes surfaced repeatedly.

Many people were surprised by the portion of the budget dedicated to pension and benefit expenses and suggested the city find ways to reduce these costs.

- Cuts to the cost and size of City Council were suggested by many Challenge-takers.
- Ending the 10-Year Property Tax Abatement program and increasing the Hotel Occupancy Tax were raised as means of raising additional revenue.

In contrast to this exercise which focused on short term options to balance the budget for the upcoming fiscal year, many users were excited to discuss longer-term and new approaches to improving the budget outlook. And, anticipating outcomes-based budgeting, other respondents suggested it would be more effective to look at spending by issue area rather than by city department.

Find the Philadelphia Budget Challenge at www.EconomyLeague.org/budget.

Philadelphia Budget Challenge Questions

(Pros and cons not reproduced here.)

Question: The current wage tax rates are 3.9296% (city residents) and 3.4997% (non-city residents). Should the City raise the Wage Tax? **Options:** 1) Raise the Wage Tax for residents and non-residents by .01%. 2) Keep the Wage Tax at the current rate.

Question: Should the city raise its Sales Tax? **Options:** 1) Increase the Sales Tax 0.1% for a total of 7.1%. 2) Increase the Sales Tax 1% for a total of 8%.

Question: Should the city raise its Amusement Tax? **Options:** 1) Keep the tax rate at 5%. 2) Increase the tax rate to 6%. 3) Increase the tax rate to 7%.

Question: Should the Business Privilege Tax be raised? **Options:** 1) Do not increase the Business Privilege Tax. Raise the rate on net income from 6.45% to 6.55%. Leave gross receipts at current millage. 2) Raise the millage on gross receipts from 1.415 to 1.515 and the rate on net income from 6.45% to 6.55%.

Question: Should the city raise Real Estate taxes? **Options:** 1) Keep the rate as it is. 2) Increase the Real Estate Tax rate by 5%. 3) Increase the Real Estate Tax rate by 11% on the city's portion. 4) Increase the Real Estate Tax rate for two years with a 19.4% increase in the first year. The increase would drop to 14.5% in the second year.

Question: Should the city cut the Fire Department's budget? **Options:** 1) Maintain current funding levels. 2) Reduce the Fire Department budget by 10%. 3) Reduce the Fire Department budget by 20%.

Question: Should the city change the way it manages its pension fund by...**Options:** 1) lowering the assumed investment rate of return from 8.75% to 8.25% and spreading the fund's earnings and losses over 10 years instead of 5? 2) Leave the pension fund assumptions as they currently are. 3) Change the pension funding assumptions.

Question: Should the city cut funding for the Free Library of Philadelphia? **Options:** 1) Make no cuts. 2) Cut budget by 10%. 3) Cut budget by 20%. 4) Cut budget 30%.

Question: Should the city decrease funding for the Office of Supportive Housing? **Options:** 1) No decrease in budget. 2) Decrease the budget by 10%. 3) Decrease the budget by 20%. 4) Decrease the budget by 30%.

Question: Should the Police Department budget be decreased? **Options:** 1) No reduction in budget. 2) Reduce the budget by 10%. 3) Reduce the budget by 20%.

Question: Should the city's Prison System budget be reduced? **Options:** 1) No reduction in budget. 2) Reduce budget by 10%. 3) Reduce budget by 20%.



Economy League of Greater Philadelphia
230 S. Broad Street, Suite 403
Philadelphia, PA 19102
tel: 215 875 1000 fax: 215 875 1010
www.EconomyLeague.org

Question: Should the city decrease funding for the Department of Public Health? **Options:** 1) No reduction in budget. 2) Reduce budget by 10%. 3) Reduce budget by 20%. 4) Reduce budget by 30%.

Question: Should the budget of the Office of Fleet Management be cut? **Options:** 1) Do not reduce the budget. 2) Reduce the budget by 10%. 3) Reduce the budget by 20%. 4) Reduce the budget by 30%.

Question: Should the city make across the board cuts to Administrative Departments? **Options:** 1) No cuts to administrative departments. 2) Cut 10%. 3) Cut 20%. 4) Cut 30%.

Question: Should the budget of the Department of Licenses and Inspections (L&I) be reduced? **Options:** 1) No reduction in budget. 2) Cut L&I's budget by 10%. 3) Cut budget by 20%. 4) Cut budget by 30%.